

STATE CONTROLLER'S OFFICE  
PERSONNEL/PAYROLL SERVICES DIVISION  
P.O. Box 942850  
Sacramento, CA 94250-5878

DATE: November 3, 2003

PERSONNEL LETTER # 03-020

TO: All Agencies/Campuses in the Uniform State Payroll System

FROM: JOHN R. HARRIGAN, Chief  
Personnel/Payroll Services Division

RE: **NEW EAR FIELD AND PROCESSES FOR IRS LOCK-IN LETTERS**

THIS PERSONNEL LETTER SUPERCEDES PERSONNEL LETTER #02-022

On September 2, 2003, a new field titled "LOCK" was added to the EAR inquiry and EAR update screens (see Personnel Letter # 03-013). Effective immediately, the "LOCK" field will be updated by PPSD per Internal Revenue Service (IRS) lock-in determination letters. The values in the "LOCK" field will be displayed, but cannot be altered by agencies or campuses.

PPSD Personnel Operations will update the "LOCK", "FEDERAL: MARITAL", and "FEDERAL: TOTAL" fields, when an IRS lock-in letter is received by the State Controller's Office. Any exempt from withholding / non-taxable wages indicator will also be deleted, and any federal additional tax deduction amount will continue.

After the update, PPSD will forward the lock-in letter to the appropriate agency or campus. Upon receipt, please verify that the employee's EAR was updated correctly per the lock-in letter. If an error is found, please contact Donna Collins at 916-322-8141 immediately.

A lock-in determination letter results when an employee files the equivalent of a Form W-4, Employee's Withholding Allowance Certificate, which IRS determines does not meet Internal Revenue Code (IRC) and related regulations. The State equivalent of the Form W-4 is the Employee Action Request (EAR or Form STD. 686) and the Student Payroll Action Request (SPAR or Form STD. 457).

The lock-in determination letter mandates the federal marital filing status and maximum number of total allowances that can be claimed by the employee. IRS, via the lock-in determination letter, requires the employer to initiate and maintain corrective measures until otherwise instructed in writing by the IRS.

An employer's failure to comply with a lock-in determination poses significant consequences. The employer is subject to civil and criminal penalties per IRC 6672 and IRC 7202. Compliance penalties may include the employer paying all taxes due, felony conviction with up to five years imprisonment, and personal fines up to \$10,000 per occurrence plus payment for the costs of prosecution.

The IRS practice is to send a lock-in letter to the employee's home address and one to the State Controller's Office. The IRS requires that the mandated filing status and allowances be implemented within 30 days of the date of the letter and remain in effect until a superceding determination letter is issued. The lock-in requirements remain in effect even if the employee separates and later returns.

Effective immediately, when an IRS mandated lock-in has been keyed by PPSD, the only authorized changes are those which result in an equal or greater withholding amount than the amount generated by the locked-in values.

Therefore, you may not accept a new EAR or SPAR if your employee is claiming exempt status or a filing status and allowances that result in a withholding amount that is less than the amount generated by the status and allowances displayed in the "LOCK" field. EAR inquiry and update screens will display "00" in this field if there is no lock in place.

The new automated process will help prevent changes not authorized by the IRS. If the EAR "LOCK" field has been updated to an IRS mandated single and zero allowances (S 00), attempts by agencies and campuses to update the federal filing status ("MARITAL") or number of allowances ("TOTAL") will result in the audit message "EAR-04 IRS LOCK IN EFFECT". It will not be possible to change the employee's federal filing status or number of allowances.

If the "LOCK" field has been updated to an IRS mandated value other than single and zero allowances (not S 00), attempts by agencies and campuses to update the federal filing status ("MARITAL") or number of allowances ("TOTAL") will result in the audit message "EAR-07 IRS LOCK IN EFFECT - VERIFY CHANGES COMPLY WITH IRS LOCK-IN LETTER". The audit message can be overridden by keying a "C" in OPERATOR CODE to process the transaction. However, this should only be done after verification that the changes would result in an equal or higher withholding amount.

SPAR transactions processed for an employee with an IRS lock will update the marital status and total allowances on the employee's record. However, the SPAR exception listing will show the employee's name, SSN, and the error message "IRS LOCK". These records should be verified and corrected as necessary.

There is an online paycheck calculator available on the State Controller's Office website at <http://www.sco.ca.gov/ppsd/empinfo/calc/paycalc.shtml> that can assist you with tax calculations. Please be sure to use the appropriate version for the current tax year.

To ensure all existing lock-in determinations are current and in compliance, PPSD will update employee EAR records in November 2003 with lock-in data obtained from the IRS. Prior to the update, PPSD will mail agency and campus personnel offices lists of their affected employees and the related lock-in determination information.

Occasionally, PPSD will forward to departments and campuses a letter sent by the IRS asking that an employee's Social Security Number (SSN) be corrected or withhold at single and zero allowances. The IRS does not consider these letters a lock-in determination letter. Therefore, PPSD will not update the "LOCK" field.

Employees who have questions regarding their lock-in determinations should be referred to the IRS contact contained in their lock-in determination letter or to the the IRS W-4 Hotline in Fresno at 1-559-265-5882. Please note this is not a toll-free number.

If you have questions regarding lock-in determinations or SSN verification letters, please call the IRS W-4 Hotline in Fresno.

If you have questions regarding the EAR update process, please contact Donna Collins at 916-322-8141.

JRH:FSL:PMAB